

International Financial Centre

Overview

A leading international financial centre, Hong Kong has a prudent and robust financial regulatory regime. The Linked Exchange Rate System (US dollar peg) has served Hong Kong well as the pillar of monetary and financial stability. The financial sector employed about 274,000 people (7.5% of workforce) and directly contributed 23.4% to Hong Kong's GDP in 2020. Hong Kong **ranked third in the *Global Financial Centres Index*** issued by UK-based Z/Yen and China Development Institute from Shenzhen in March 2022. Amid the complex and constantly evolving international political and economic landscape, the Government and regulators monitor Hong Kong's markets to ensure financial stability.

Robust Regulatory Environment

The Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the Insurance Authority (IA) are three statutory bodies regulating the market.

- **HKMA**, established in 1993, is responsible for maintaining monetary and banking stability. The HKMA's four key functions are: maintaining currency stability within the framework of the Linked Exchange Rate System; promoting the stability and integrity of the financial system, including the banking system; helping to maintain Hong Kong's status as an international financial centre, including the maintenance and development of Hong Kong's financial infrastructure; and managing the Exchange Fund.
- **SFC**, set up in 1989, regulates Hong Kong's securities and futures markets. Principal responsibilities include maintaining and promoting the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry.
- **IA** was established in 2015. It started regulating insurance companies, and insurance intermediaries in June 2017 and September 2019, respectively.
- **The Financial Leaders Forum**, established in August 2017 and chaired by the Financial Secretary, has been discussing and providing policy steer on strategic and forward-looking proposals to develop and strengthen Hong Kong's position as an international financial centre.
- Hong Kong is the first jurisdiction in the Asia-Pacific region assessed by the Financial Action Task Force to have achieved an overall compliant result for having an anti-money laundering and counter-terrorist financing regime that is both technically compliant and effective.
- The **Financial Reporting Council (FRC)** has become an independent oversight body regulating auditors of listed entities under the new auditor regulatory regime commenced on October 1, 2019. It is responsible for the inspection, investigation and disciplinary functions with regard to auditors of listed entities.

Facilitating Financial Services

- The Hong Kong Exchanges and Clearing Limited (HKEX) introduced a new listing regime in April 2018 to enhance **Hong Kong's competitiveness as a listing platform**.
- The launch of **Shanghai-Hong Kong Stock Connect** and **Shenzhen-Hong Kong Stock Connect** in 2014 and 2016 respectively are of groundbreaking significance for the mutual capital market access between Hong Kong and the Mainland. In 2021, total transaction value of the Southbound

and Northbound Trading of Stock Connect programmes increased by more than 40% over that of 2020.

- **Pre-revenue/Pre-profit biotechnology (biotech) companies listed in Hong Kong and stocks listed on the Mainland Sci-Tech Innovation Board** meeting certain criteria can be included into the stock universe of the **mutual market access programmes**.
- The Northbound Trading and the Southbound Trading under **Bond Connect** scheme, launched in July 2017 and September 2021 respectively, further improves financial connectivity between market infrastructures in Hong Kong and the Mainland.
- **Cross-boundary Wealth Management Connect** enables residents in Hong Kong, Macao and nine cities in Guangdong Province to carry out cross-boundary investment in wealth management products distributed by banks in the area.
- To expand Hong Kong's fund distribution network, Hong Kong has so far reached **mutual recognition of funds** arrangement with **the Mainland, Switzerland, France, the United Kingdom, Luxembourg, the Netherlands and Thailand**.
- The **Faster Payment System (FPS)** launched by HKMA offers 24-hour real-time payment and transfer function. The FPS payment function has been extended to cover various Government payments for greater convenience for the public.
- HKMA issued **virtual bank** licences to eight virtual banks so far, all have already officially opened. IA has also issued four **virtual insurer** authorisations.
- HKMA has been facilitating the development and adoption of **Open Application Programming Interface (Open API)** by the banking sector, with over 1,200 registrations from third-party service providers to access banks' Open APIs recorded (end-March 2022).
- **Banking Made Easy** initiative allows adoption of innovative technology and facilitates Regtech.
- The **Fintech Proof-of-Concept Subsidy Scheme** provides financial incentives for financial institutions to partner up with fintech companies to conduct Proof-of-Concept projects. The 2022-23 Budget allocates HK\$10 million to launch a new round of the Scheme.
- The **Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)**, provides for preferential trade and investment policies, encourages cross-boundary insurance and reinsurances services etc.
- The development of **Guangdong-Hong Kong-Macao Greater Bay Area (GBA)** would consolidate Hong Kong's role as the financial gateway connecting Mainland and global financial markets. It also seeks to facilitate flow of factors of production (including capital) in the region by enhancing the efficiency of cross-boundary financial services.
- In his 2022-23 Budget Speech, the Financial Secretary announced that he will increase the funding allocated to the Hong Kong Growth Portfolio under the Future Fund by HK\$10 billion, of which HK\$5 billion will be used to set up a **GBA Investment Fund**, which will focus on investment opportunities in the GBA.

Promoting Financial Services

- A number of major **international financial services-related events** are held in Hong Kong annually, including Asian Financial Forum, Hong Kong Fintech Week, International Financial Week and Belt and Road Summit.
- The Government continues to expand Hong Kong's network of **Comprehensive Avoidance of Double Taxation Agreements (CDTAs)**. Hong Kong has so far signed 45 CDTAs.

- The **Financial Services Development Council** was established in 2013 as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of Hong Kong's financial services industry.
- The 2019-20 Budget set aside HK\$400 million seed capital for the **FRC** to migrate to a new auditor regulatory regime.

Premier offshore Renminbi (RMB) business hub

- **About 75 per cent of the global offshore RMB payments** are processed via Hong Kong (2021).
- **Average daily turnover of Hong Kong's RMB Real-Time Gross Settlement System** reached over RMB1.7 trillion in the first quarter of 2022.
- **Hong Kong is the world's largest offshore RMB business hub** (total deposits including certificates of deposit reached RMB808.1 billion at end-March 2022).

Stock market

- World's 7th largest and Asia's 4th largest stock market by market capitalisation among exchanges at end-March 2022 (US\$4,971 billion). The Hong Kong stock market recorded an average daily turnover of about US\$21.4 billion in 2021, representing an increase of 28.8% over 2020.
- Vibrant IPO activities, raising US\$42.5 billion of funds in 2021, 4th in the world and 2nd in Asia. Continuing to be one of the major listing platforms in the world.
- World **No.1 environment for IPO and M&A (mergers and acquisitions) activity** (Global Transactions Forecast 2020 compiled by Baker McKenzie and Oxford Economics)
- Under the new listing regime, 74 firms have been listed since 2018, raising more than HK\$580.7 billion (end-April 2022).
- **World's second largest fund raising hub for biotech.** As at April 2022, 92 healthcare and biotech companies have listed in Hong Kong, raising HK\$257 billion through IPOs.
- In October, 2021, HKEX launched the **MSCI China A-share index futures contract** in Hong Kong to further expand the product scope offering in Hong Kong's capital markets, strengthen Hong Kong's offshore Renminbi businesses and deepen the collaboration between the two capital markets, thereby contributing to the further development of the Mainland's capital market towards internationalisation.
- In January 2022, HKEX launched a **listing regime for Special Purpose Acquisition Companies (SPAC)**, with the first SPAC listing in March 2022.

Asset and wealth management

- As the **premier fund management hub** in Asia, Hong Kong's asset and wealth management business at end-2020 amounted to HK\$35 trillion (approx. US\$4.5 trillion).
- Apart from unit trusts, a fund can be set up in a **new corporate fund structure**, i.e. open-ended fund companies (OFC), in Hong Kong since 2018. Subsidies will be provided to cover the expenses paid to local professional service providers for OFCs set up or re-domiciled to Hong Kong from 2022-2024.
- Public and private funds, irrespective of whether they are onshore or offshore, can enjoy profits tax exemption at the fund level subject to meeting certain conditions.
- The Government established a **limited partnership fund regime** on August 31, 2020 to attract private equity funds to domicile and operate in Hong Kong.
- **Tax concessions are provided for carried interest issued by private equity funds** subject to

the fulfilment of certain conditions to attract more private equity funds to domicile and operate in Hong Kong.

- To develop Hong Kong into a **vibrant real estate investment trust (REIT) market**, measures including relaxation of investment restrictions of REIT, broadening investor base, provision of subsidies for qualifying REITs, exploring facilitation of market operation through legislative and regulatory enhancements and stepping up promotion are being pursued.
- InvestHK has stepped up promotion of **family office business** and offers one-stop support services to family offices to establish a presence or expand in Hong Kong.

Bond market

- Hong Kong is the largest centre for arranging bonds issued internationally by Asia-based entities.
- New rounds of inflation-linked retail bonds (iBond) and Silver Bonds (targeting residents aged 60 or above) totalling no less than HK\$50 billion in the 2022-23 financial year to develop the retail bond market.
- **The borrowing limit of the Government Bond Programme** was further increased from HK\$200 billion to **HK\$300 billion** in July 2021 to allow sufficient room for bond issuances.
- **Efficiency** and capacity of the domestic **Central Moneymarkets Unit (CMU)** will be enhanced to cope with the increasing market demand of Bond Connect, providing risk-controlled channel for Mainland investors to participate in local and overseas bond markets and help develop Hong Kong into a major central securities depository platform.

Insurance

- One of the **most open insurance markets** in the world.
- **Highest concentration of insurers** in Asia, with about 160 authorised insurers.
- Total **gross premium income** of HK\$602.7 billion (US\$77.3 billion) in 2021 (provisional statistics).
- The Government has implemented a number of **measures to increase Hong Kong's competitiveness as an international insurance hub**, including reducing profits tax rate by 50% for marine and specialty insurance businesses, facilitating the issuance of insurance-linked securities (ILS) in Hong Kong, expanding the scope of insurable risks by captive insurers and enhancing the regulatory framework for multinational insurance groups.
- The Government launched a **two-year Pilot ILS Grant Scheme** in May 2021 to attract insurance enterprises or organisations to issue ILS in Hong Kong.

Banking

- **78 of the world's 100 top banks** operate in Hong Kong.
- The banking system remains robust with **major banks' average liquidity coverage ratio** at about **150%** and **average capital adequacy ratio exceeding 20%**, both well above the international regulatory standards.
- As at April 29, 2022, the Aggregate Balance of the banking system amounted to HK\$337.5 billion (US\$43.0 billion).
- The total deposits of banks in 2021 grew by 4.6% year-on-year to about HK\$15,186.2 billion (US\$1,947 billion). The rising trend continues into the first quarter of 2022, with total deposits up 1.1% from end-2021 to HK\$15,349.3 billion (US\$1,968 billion).

Green and Sustainable Finance

- As at May 2022, the Government has issued a total of over US\$7 billion worth of green bonds under the **Government Green Bond Programme** (GGBP), targeting global institutional investors and covering multiple currencies and different tenors. The issuances achieved a number of breakthroughs: the first “Global Medium Term Note Programme” by a government dedicated to green bond issuances; the world’s largest US dollar-denominated government green bond deal; the longest tenor US dollar-denominated government green bond in Asia; and the longest tenor euro-denominated government green bond in Asia.
- In May 2022, the Government issued the **inaugural retail green bond of HK\$20 billion**, further promoting the development of green and sustainable finance in Hong Kong.
- **The borrowing ceiling of the GGBP was doubled to HK\$200 billion** in July 2021 to allow further issuance of green bonds totalling HK\$175.5 billion within the five years from 2021-22, having regard to the market situation.
- A **Green and Sustainable Finance Grant Scheme** was launched in May 2021 to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. As at April 2022, over 70 applications have been approved.
- The Government will join hands with the relevant stakeholders to take forward the strategic plan announced in end-2020 by the Green and Sustainable Finance Cross-Agency Steering Group to strengthen Hong Kong’s financial ecosystem for a greener and more sustainable future.

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